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## Global Employment Trends, January 2007

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## Global Employment Trends, January 2007

### Abstract

[Excerpt] The number of people unemployed worldwide remained at an historical high in 2006 despite strong global economic growth. Even though more people are working globally than ever before, the number of unemployed remained at an all time high of 195.2 million in 2006 or at a global rate of 6.3 per cent. This rate of unemployment rate was almost unchanged from the previous year. This confirmed the trend of the past several years in which robust economic growth has failed to translate into significant reductions in unemployment or poverty among those in work.

The pattern looks set to continue in 2007, with a forecast growth rate of 4.9 per cent likely to ensure that unemployment remains at about last year's level. The persistence of joblessness at this rate is of concern, given that it will be difficult to sustain such strong economic growth indefinitely. Moreover, while the percentage of working poor in total employment declined in the past ten years, the number of working people living on US\$2 a day has continued to grow in absolute numbers, reaching 1.37 billion in 2006. To make long-term inroads into unemployment and working poverty, it is essential that periods of strong growth be better used to generate more decent and productive jobs. Reducing unemployment and working poverty through creation of such jobs should be viewed as a precondition for sustained economic growth.

Some labour market challenges are the same in almost all regions: for example, young people have more difficulties in labour markets than adults and women do not get the same opportunities as men. Other challenges vary between regions, which is why this year's Global Employment Trends Brief outlines each region's labour market performance as well as key challenges.

### Keywords

International Labour Organization, ILO, labor market, development, economic growth



International  
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Office



## GLOBAL EMPLOYMENT TRENDS *BRIEF, January 2007*

### Global employment situation

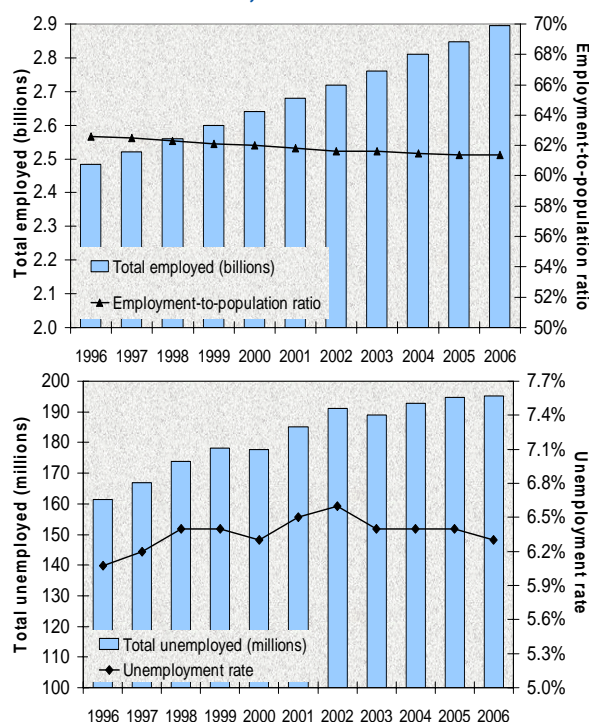
Strong global GDP growth in 2006 led to a stabilization of labour markets worldwide, with more people in work<sup>1</sup> than in 2005. At the same time the total of 195.2 million unemployed was slightly higher than a year earlier, an all time high. The global unemployment rate changed little from a year earlier, and stood at 6.3 per cent in 2006 (see figure 1).

This confirmed the trend of the past several years in which robust economic growth has failed to translate into significant reductions in unemployment or poverty among those in work. The pattern looks set to continue in 2007, with a forecast growth rate of 4.9 per cent<sup>2</sup> likely to ensure that unemployment remains at about last year's level. The persistence of joblessness at this rate is of concern, given that it will be difficult to sustain such strong economic growth indefinitely. Moreover, while the percentage of working poor in total employment declined in the past ten years, the number of working people living on US\$2 a day has continued to grow in absolute numbers, reaching 1.37 billion in 2006. To make long-term inroads into unemployment and working poverty, it is essential that periods of high growth be better used to generate more decent and productive jobs. Reducing unemployment and working poverty through creation of such jobs should be viewed as a precondition for sustained economic growth.

At the end of 2006, 2.9 billion people aged 15 and older were in work, up 1.6 per cent from the

previous year, and 16.6 per cent since 1996.<sup>3</sup> How many of the new jobs created in 2006 were decent jobs is difficult to estimate, but given that the share of working poor in total employment decreased from 54.8 per cent in 1996 to 47.4 in 2006, it is

Figure 1: Global employment and unemployment trends, 1996-2006\*



Source: ILO, *Global Employment Trends Model*, 2007; see also note to table 1. \* 2006 are preliminary estimates.

<sup>1</sup> The expression “in work” summarizes all people employed according to the ILO definition, which includes self-employed, employed, employers as well as unpaid family members. The words “employed” and “in work” are used as synonyms in this GET Brief.

<sup>2</sup> IMF, *World Economic Outlook*, Washington, September 2006, <http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx>.

<sup>3</sup> Country-level labour market information needed for the world and regional estimates is taken from ILO, *Key Indicators of the Labour Market* (KILM), 4th Edition, Geneva 2005. For methodological details on calculating world and regional estimates, see:

<http://www.ilo.org/public/english/employment/strat/wrest.htm>.

The regional grouping used is listed in ILO, KILM, op.cit.

likely that at least some of the jobs were productive enough to help people work themselves and their families out of poverty.

The last decade has witnessed a decline in the share of the world's working-age population (aged 15 years and older) that is in employment (known as the employment-to-population ratio). It stood at 61.4 per cent in 2006, 1.2 percentage points lower than ten years earlier (see figure 1 and table 3). The decrease was larger among young people (aged 15 to 24). Within this group, the ratio decreased from 51 per cent in 1996 to 46.8 per cent in 2006. The increasing proportion of young people in education may in part explain this reduction. The gap between men and women continued, with 48.9 per cent of women employed in 2006, compared with 49.6 per cent in 1996. The comparable figures for men were 75.7 per cent in 1996 and 74.0 per cent in 2006.

The gender gap in labour force participation is another indication of the limited chances for women to take part in the world of work. In 2006, 52.4 per cent of all women of working age were either looking for work or working – which is what labour force participation rates measure. This was 0.6 percentage points less than ten years ago. This minimal change reflects two diverging trends: an increase in prime-age participation and a decrease in youth participation. The latter results from more women participating in education which should, of course, improve their chances in labour markets. Male participation rates dropped from 80.5 per cent in 1996 to 78.8 per cent in 2006. This declining trend is consistent throughout all regions.

In 2006, the employment share of the service sector in the total global employment progressed from 39.5 percent to 40 percent and, for the first time, overtook the share of agriculture that decreased from 39.7 percent to 38.7 percent. The industry sector represented 21.3 percent of total employment.

The labour market developments described above are the result of long-term socio-economic changes as well as economic growth trends. According to the latest IMF estimate,<sup>4</sup> global output continued to grow at a robust pace of 5.2 per cent in 2006. Global labour productivity (measured as output per worker<sup>5</sup>) rose by 3.4 per cent in 2006, which is more than the year before. GDP can grow

only if people work more efficiently (bringing increased productivity) or if more people work. Once again, as has been the case for the last ten years, economic growth was associated more with a rise in productivity than with increasing employment. Such a trend is not necessarily threatening for workers as long as higher productivity leads to increasing earnings, which is not always the case.

The regional variation behind these global trends is significant, which is why this year's Global Employment Trends *Brief* outlines each region's labour market performance as well as key challenges.

## Sub-Saharan Africa

Many countries in sub-Saharan Africa have experienced improvements in economic indicators during recent years: inflation on the continent is down to historic lows, most exchange rate distortions have been eliminated, and fiscal deficits are contracting. These gains, however, are often not yet reflected in stable GDP growth rates or even stable GDP per capita increases, nor in better labour market conditions.

Regarding economic growth, the region had a relatively good year, with GDP expanding by an estimated 4.8 per cent in 2006<sup>6</sup>. Nonetheless, performances remained mixed, with several countries making remarkable progress, some stagnating and others lagging seriously behind. Over the 1996-2006 period, of the 42 countries in the region with data available, 19 had average annual GDP growth rates in excess of 4 per cent and 12 had a growth rate of less than 2 per cent a year. The other 11 had growth rates of between 2 and 4 per cent.

When it comes to labour productivity, sub-Saharan Africa has a lower level than other regions. The value added per worker in sub-Saharan Africa is 13 times lower than that of a worker in the developed world. As the World Bank noted in a recent publication,<sup>7</sup> productivity in sub-Saharan Africa's best performing firms is on par with competitors in Asia. But there are still too many African economies with low rates of productivity

<sup>4</sup> See footnote 2.

<sup>5</sup> For a detailed discussion on productivity see ILO, *World Employment Report 2004-05*, Geneva, 2005, as well as ILO, *Key Indicators of the Labour Market (KILM)*, 4th Edition, Geneva, 2005.

<sup>6</sup> See footnote 2.

<sup>7</sup> World Bank, *African Development Indicators 2006*, Washington, 2006, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRIC/AEXT/EXTPUBREP/EXTSTATINAFR/0,,contentMDK:21102598~menuPK:3083981~pagePK:64168445~piPK:64168309~theSitePK:824043,00.html>.

and, even more importantly, with no productivity increases. This means they fall quickly behind competitive international levels. It is one of the main reasons why Africa has lost overall market shares in traditional exports.

Labour productivity has been increasing over the last ten years for the region as a whole. The increase was more than in the Middle East and North Africa as well as in Latin America and the Caribbean and just as much as in South-East Asia. But the gap with regions other than these three is widening. While Africa's rapidly expanding work force could be an asset, the region has not been able to take advantage of this as much as other parts of the world, most notably Asia. Total employment over the last decade increased by 26.7 per cent, less than in some other labour rich regions. At the same time, the working age population grew by 30.1 per cent. Therefore, Africa has seen an increase in its employment, but not fast enough to keep pace with the rising working age population. Moreover, productivity gains have not helped reduce working poverty. This suggests that improvements in the quality of employment are small and very unevenly distributed.

The total number of unemployed rose by another 969,000 (or 3.4 per cent) in 2006 and by 35.3 per cent over the last ten years. The unemployment rate remained almost unchanged at 9.8 per cent and was therefore 0.6 percentage points higher than ten years earlier. Working poverty also continues to grow at both the US\$1 a day as well as the US\$2 a day level. And there has only been a gradual decrease in the share of working poor in total employment. Moreover, in 2006 more than eight out of ten people did not earn enough to lift themselves and their families above the US\$2 a day poverty line; and five out of ten were not able to lift themselves and their family out of extreme poverty of US\$1 a day.

The lack of inroads in reducing working poverty combined with the growing number of unemployed has led to an increase in overall poverty.<sup>8</sup> It reflects the double challenge Africa faces. With high population increases and a huge decent work deficit, growth would have to be in the

double digits to really result in **more and better** jobs.

## Middle East and North Africa

Middle East and North Africa remains the region with the highest unemployment rate in the world (12.2 per cent in 2006, almost unchanged from 2005) as well as the lowest employment-to-population ratio (47.3 per cent in 2006, up from 47.0 in 2005). It also has the lowest labour force participation rate (53.9 per cent in 2006 and 53.6 per cent in 2005) worldwide. This performance reflects the limited chances for women in the region, with only about one out of three women active in labour markets (the labour force participation rate for women was 29.5 per cent in 2006). In addition, of those women participating in labour markets 17.0 per cent were unemployed in 2006 and only 24.5 per cent of the female working age population actually had a job in 2006. The situation is even worse for young women (aged 15 to 24), with an unemployment rate of 32.2 per cent, a labour force participation rate of 25.4 per cent and an employment-to-population ratio of 17.2 per cent. While all the indicators have improved over the last ten years, there is a long way to go before reaching equality in labour markets.

Although the region has a low working poverty rate compared with other developing regions, especially when measured by the US\$1 a day level, every third employed person lives in a family where each member has to survive on less than US\$2 a day. In addition, the total number has increased since the 1990s. The share of working poor fell over the same period, but not to the same extent as in other regions.

These consistently high unemployment rates and scant progress in reducing working poverty are an indication that economic growth is not rapid enough, given the increase in population. While GDP expanded by 6.1 per cent in 2006, over the last decade it only grew by an annual average of around 4.5 per cent. However, it is not only inadequate growth but also the lack of well-functioning labour markets and labour market institutions that hinder decreases in unemployment, poverty and working poverty and thereby the development process. Another factor in the lack of employment generation is the reliance on oil production for economic growth, given that this sector is not very employment intensive.

<sup>8</sup> Some countries in Sub-Saharan African, including Burkina Faso, Cameroon, Cape Verde, Ghana, Mozambique, Senegal and Uganda have lifted significant percentages of their citizens above the poverty line and might well be on course to meeting the income poverty Millennium Development Goal (MDG) target of halving poverty by 2015, according to a World Bank Report (for details see footnote 7).



Nonetheless, news from the region is not all negative. A recent World Bank study<sup>9</sup> showed, surprisingly, that the lack of income poverty reduction<sup>10</sup> did not constrain human development in the Middle East and North Africa. Health and education indicators improved tremendously. For example, between 1985 and 2000, literacy spread from 47 per cent to 69 per cent of the population, child mortality rates plunged from 108 per thousand to 46 per thousand, and average years of schooling rose from 3.2 to 5.4. The World Bank report attributed these gains to a combination of factors, including enhanced private spending and improvements in the delivery of public health and education services. This is encouraging and suggests that, even in the absence of income growth, it is possible to improve health and education attainments by focusing on public service delivery – without raising public social spending.

The fact that little income poverty reduction occurred during the 1990s despite these remarkable gains in human development reflects a failure to translate rising human capital into higher productivity and thereby higher incomes. Over the last ten years, productivity measured as output per person employed rose by less than 9 per cent, compared with a world average of nearly 26 per cent. Only Latin America and the Caribbean had smaller increases. This is a sign of the labour-intensive economic growth that has traditionally occurred in the region. However, despite this tradition economic growth was not sufficient to generate enough jobs. At the same time many of the jobs created were – as a result of low productivity – of such poor quality that they did not help the poor to work themselves and their families out of poverty.

What can be done to improve the situation?

- The region's social safety nets as well as labour market institutions need considerable improvement. Necessary measures could include unemployment insurance, temporary employment in public works, and micro finance.

- Growth should be accelerated, with special attention paid to the need to increase labour absorption in the private sector.
- Focusing on education quality at all levels and expanding the access of the poor to health services should further improve human capital.
- Quality and labour market relevance of the workforce need to be improved so as to face strong global competition.
- It is necessary to use the untapped potential of women in general and young women in particular.
- There must be economic diversification to make economies less dependent on oil production.

All these points are essential for the future development process in the region.

## Latin America and the Caribbean

Slightly positive labour market trends in recent years in Latin America and the Caribbean<sup>11</sup> are partly the result of three successive years of economic growth of over 4 per cent. The unemployment rate decreased fractionally from 8.1 to 8 per cent in 2006,<sup>12</sup> which was about the same level as ten years earlier. The employment-to-population ratio changed little in 2006, but increased by 1.8 percentage points over the past decade. This is mainly the result of a much higher employment-to-population ratio for women, which increased from 41.5 per cent in 1996 to 47.0 per cent in 2006. This rise in the employment share of women in the working age population went in parallel with a substantial increase in female participation in labour markets. The female labour force participation rate increased from 46.1 in 1996 to 52.4 in 2006. (At the same time employment-to-population ratios and labour force participation rates for men decreased slightly.) Positive labour market trends are also reflected in a decrease in working poverty. The total numbers as well as the share of those working but still living in poverty with their families have decreased both at the US\$1 and US\$2 a day poverty levels ever since reaching a high in 2003. Still, in 2006 almost one third of those employed lived in households where each family member had to live on less than US\$ 2 a day.

<sup>9</sup> F. Iqbal: *Sustaining Gains in Poverty Reduction and Human Development in MENA* (Washington, World Bank, 2006) [http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENA\\_EXT/0..contentMDK:20895471~pagePK:146736~piPK:146830~theSitePK:256299,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENA_EXT/0..contentMDK:20895471~pagePK:146736~piPK:146830~theSitePK:256299,00.html).

<sup>10</sup> The term income poverty is used to describe poverty as a result of a lack of income and is measured by the number of people living below a certain monetary level.

<sup>11</sup> The analysis for Latin America draws heavily on ILO, *Panorama Laboral*, Lima 2005 and 2006, <http://www.oit Chile.cl/panorama.php>.

<sup>12</sup> Differences to data published in the yearly publication of the ILO, *Panorama Laboral*, are due to the fact that data there covers only urban areas whereas data published in the Global Employment Trends publications covers the whole country.

Although the relatively stable unemployment situation, narrowing gap between female and male participation shares and employment ratios and the drop in working poverty are encouraging, the unemployment rate remains well above the world average of 6.3 per cent. Female unemployment of more than 10 per cent is especially worrisome and might discourage women from participating in labour markets in the future. For this reason, job creation continues to be a major concern for policymakers. However, as in all developing regions, it is not a question of creating any kind of jobs but decent jobs. Experience shows that economic growth must be strong and sustained and must be well balanced between job creation and productivity growth to really reduce decent work deficits. Yet, economic growth in the past ten years in most of the countries in the region has been lacklustre and unstable. And over the last ten years the increase in labour productivity was the smallest of all regions, a mere 5 per cent.

Besides the lack of stable economic growth and productivity growth, there are also other serious challenges the region has to tackle:

- Non-agricultural employment continues to be concentrated in low productivity, low wage sections of the economy, especially in the service sector, with insufficient levels of social protection. According to an analysis done for *Panorama Laboral* in 2005, the countries with the largest percentages of workers employed in the informal sector were Colombia, Ecuador, Paraguay and Peru, at close to 60 per cent, while those with the lowest shares were Costa Rica (41.8 per cent), Panama (41.6 per cent), and Uruguay (37.7 per cent). The analysis also shows that during the period between 2000 and 2004, informal sector employment clearly increased in the majority of the countries with available information.
- Income inequality is deep-rooted and still exceptionally high despite changes in economic policies. Inequality is said to affect development in three main ways. First, income inequality goes hand in hand with unequal access to education, health and political power. Second, in Latin America, inequality involves widespread poverty: two out of five Latin Americans are poor, even though most of them live in “middle-income” countries. Third, there is evidence that high inequality undermines growth, by concentrating saving and investment in too few hands.

According to a World Bank study,<sup>13</sup> inequality in Latin America is mainly due to interlocking effects of four elements: access to education is unequal; the earnings of educated people are disproportionately high; the poor have more children with whom they must share their income; and targeting of public spending is ineffective.

In summary, although more recently regional economic growth has been accompanied by some improvement in key labour market indicators, there remains a substantial decent work deficit. To tackle this, integrated economic and social policies are needed. Balancing the need for competitiveness and efficiency with that of social protection will be key to being successful.

## East Asia

For the fifth consecutive year, East Asian<sup>14</sup> economies have had GDP growth of over 8 per cent. This was underpinned by China’s growth rate of more than 10 per cent. Strong export performance has been a common feature sustaining robust economic activity throughout the region. Improved public finances and lower public debt are also providing fiscal space for higher public spending, which could benefit the region through greater investments in infrastructure and social services.<sup>15</sup> Despite such solid economic expansion, the total number of unemployed increased in 2006 by more than the previous year. The change was small enough, however, for the unemployment rate to rise by only 0.1 percentage points to 3.6 per cent.

The employment-to-population ratio decreased slightly in 2006 to 71.6 per cent, but remains the highest in the world. The decrease in this rate over the past ten years is mainly the result of more young people getting better and longer education. This also

<sup>13</sup> World Bank: *Inequality in Latin America & the Caribbean: Breaking with History?* Washington, 2003,

<http://wbi0018.worldbank.org/LAC/LAC.nsf/ECADocByUnid/4112F1114F594B4B85256DB3005DB262?Opendocument>.

<sup>14</sup> The analysis for this region as well as the other Asian regions relies heavily on the findings in ILO, *Report for the 14<sup>th</sup> Asian Regional Meeting on decent work in Asia*, Republic of Korea, 2006,

<http://www.ilo.org/public/english/standards/relm/rgmeet/14asrm/dgresu/its01-05.pdf>

and ILO, *Report on Labour and Social Trends in Asia and the Pacific*, Bangkok, 2006,

<http://www.ilo.org/public/english/region/asro/bangkok/14arm/download/labour.pdf>.

<sup>15</sup> World Bank, *East Asia Update November 2006*, Washington 2006

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/0,contentMDK:21125803~menuPK:208943~pagePK:2865106~piPK:2865128~theSitePK:226301,00.html>.

partly explains why the labour force participation rate decreased in 2006 and over the last decade. These trends were backed by a substantial decline in poverty and working poverty. Current estimates suggest that the number of people in East Asia working but still living with their families on below US\$2 a day fell to 347 million (or 44.2 per cent of those in work) in 2006.

Low and stable unemployment rates, moderate population growth and positive growth prospects in the near-term make it likely that labour markets will remain stable in 2007. However, as East Asia is on its way to becoming a middle-income region, new challenges will arise – especially regarding management of the region's new wealth. Despite successful global integration and increasing regional integration, many East Asian countries are falling behind in domestic integration. Inequality has risen, not just in income levels, but also in schooling and access to basic services. The development of labour markets will play an important role in handling these new developments as well as in further reducing decent work deficits. Some of the main challenges the region faces regarding decent work are:

- Despite a declining youth labour force, 232 million young people (aged 15-24) need to be well prepared to become the drivers of future growth. Success in this regard depends on higher skill levels and a smoother transition from school to work. Failure to seize this opportunity to train young people more effectively for the workplace, and to be active citizens, could lead to widespread disillusionment and social tensions. This is especially crucial given the region's slow population growth, as labour shortages and the need for a well-educated workforce could become important issues in the future.<sup>16</sup>
- Wage growth lags behind productivity gains. In China, for example, labour productivity in manufacturing rose by 170 per cent between 1990 and 1999, while real wages increased by slightly less than 80 per cent.
- Improvements in other decent work components are not keeping up with economic development. Average working hours are longer than in other regions and exceed 50 hours per week in some countries; safety and health at work as well as

rights at work have not progressed significantly; and social dialogue between workers, employers and governments is far from being implemented everywhere.

- Women face more difficulties in labour markets than men, as reflected in their lower participation rates as well as in the fact that fewer women work in modern sectors.

## South-East Asia and the Pacific

Since the financial crisis in 1997-98, the economies in South-East Asia and the Pacific<sup>17</sup> have experienced slower economic growth than in the pre-crisis years. In 2006, the region's GDP expanded by 5.4 per cent. Within the region, economic performance was poorest in the Pacific. Combined with high labour force growth and poor labour market performance, living standards have deteriorated in many Pacific Island States. Within South-East Asia, Cambodia and Viet Nam have had the fastest GDP growth, with an average annual growth rate of more than 6 per cent over the past ten years. Underpinning Cambodia's GDP growth is stronger agricultural production, a booming tourism industry and robust garment exports. Viet Nam's economic performance continues to be driven by surging private investment and strong domestic demand.

The region's employment-to-population ratio decreased from 67.5 to 66.1 per cent between 1996 and 2006. During the same period, the unemployment rate in South-East Asia and the Pacific increased considerably, by 2.8 percentage points. Fortunately, this trend did not continue during 2006. The unemployment rate remained at 6.6 per cent. Despite persistent increases since the Asian financial crisis, overall unemployment rates in the region remain relatively low compared with other parts of the world. Nevertheless, some economies still have not fully recovered from the Asian financial crisis, while others are struggling with the shift from centrally organized economies to private markets. To this end, former state-owned enterprises have let go a large number of workers, increasing the pressure for private-sector job creation. Reduced private investment in the post-crisis period is also adversely affecting the region.<sup>18</sup>

These factors have resulted in a growing decent work deficit, which is putting a brake on efforts to

<sup>16</sup> For more details on the specific problems of young people in the region see: ILO, *Global Employment Trends for Youth*, 2006, <http://www.ilo.org/public/english/employment/strat/download/gety06en.pdf>. See also footnote 14.

<sup>17</sup> See footnote 14.

<sup>18</sup> IMF, *Regional Economic Outlook, Asia and Pacific*, Washington, May 2006, pp. 33-42, <http://www.imf.org/external/pubs/ft/reo/2006/eng/01/areo0506.pdf>.



reduce poverty further. Without effective social protection schemes and social safety nets, most people in South-East Asia cannot afford to be openly unemployed. Even when they work – and work very hard – they often do not earn enough to escape poverty: in 2006, 56.9 per cent of the region's workers were unable to lift themselves and their families above the US\$2 a day poverty line.

In South-East Asia and the Pacific, progress on five key issues will be crucial to realizing decent work:

- Finding the right balance between productivity growth and decent employment creation.
- Promoting decent jobs for young people.
- Managing labour migration.
- Adapting and modernizing labour market governance.
- Extending social protection coverage.

The economic growth potential in coming years for South-East Asia and the Pacific will not be enough to match the region's successful development before the financial crisis. To avoid higher unemployment rates, South-East Asian countries need to create new employment opportunities and tackle working poverty.

## South Asia

A growing labour force remains South Asia's<sup>19</sup> main challenge. Over the last decade it has increased at the high annual rate of 2.1 per cent. Between 2005 and 2006 employment grew by 11.7 million. Compared with other regions, South Asia's labour force participation rate is relatively low (59.7 per cent), however this is mainly due to the significant discrepancy between the rates for men (82.2 per cent) and women (36.0 per cent). What makes the situation of women even worse is that despite their low participation, they have a higher risk than men of becoming unemployed: the female unemployment rate in 2006 was 6.2 per cent compared to 4.9 per cent for men. In addition, during the past decade unemployment rates for women increased, rising from 4.9 to 6.2 per cent. Comparatively, the male unemployment rate went up only slightly, from 4.2 to 4.9 per cent.

South Asia's countries are different from the rest of Asia in that they have tended to be less integrated in global markets. They still strongly depend on agriculture and therefore on weather conditions and the demand for agricultural products. The agricultural sector accounts for over half of total employment, more than in any other region

except sub-Saharan Africa. Moreover, many of the new jobs created outside agriculture in South Asia are in the informal sector and are not necessarily of better quality than those in agriculture.

Overall, South Asia's employment is not growing as fast as the working age population. During the last ten years the employment-to-population ratio, which is already one of the lowest in the world, went down from 58.4 to 56.5 per cent. Taken together with increasing unemployment rates (from 4.4 in 1996 to 5.2 per cent in 2006), this means that employment creation has been insufficient to absorb the growing labour force.<sup>20</sup> But, as is the case in all developing regions, unemployment is only the tip of the iceberg. Even though working poverty has been dramatically reduced in the region – especially in India – at 87.2 per cent, the working poor rates at the US\$2 a day level are still very high.

GDP growth in South Asia remains robust, but dropped from 8.2 per cent in 2005 to 7.9 percent in 2006. It is expected that this moderation in growth will continue into 2007.<sup>21</sup> However the considerable growth rates over the past several years have led to progress in tackling the region's biggest labour market challenges:

- Literacy rates of the adult population are still very low (for example, 57.2 per cent in India).<sup>22</sup> More education and training would help to expand employment opportunities, increase labour productivity and allow people to work themselves out of poverty. This, in turn, would contribute to sustainable economic growth.<sup>23</sup>
- Social protection is a key element of decent work. The challenge is to find an effective balance between flexibility, stability and security of working arrangements in dynamic labour markets.
- Young people in the region are under-utilized and offer great potential. In 2006 they were 2.8 times more likely as adults to be unemployed and they had a low participation rate of 47.1 per cent. The decrease in this latter rate over past years can only partly be explained by longer education periods. Many young people – especially young women –

<sup>20</sup> J. Felipe and R. Hasan, *Labour Markets in Asia* (New York, Asian Development Bank, 2006).

<sup>21</sup> See footnote 2.

<sup>22</sup> UNESCO, Institute for Statistics, 2005,

[http://www.uis.unesco.org/ev\\_en.php?ID=2867\\_201&ID2=DO\\_TOPIC](http://www.uis.unesco.org/ev_en.php?ID=2867_201&ID2=DO_TOPIC)

<sup>23</sup> D. Kucera and R. Sarna: *Child labour, education and export performance*, Working Paper No. 52, Policy Integration Department, (Geneva, ILO, 2004), p.27,

[http://www.ilo.org/public/english/bureau/integration/download/publicat/4\\_3\\_302\\_wp-52.pdf](http://www.ilo.org/public/english/bureau/integration/download/publicat/4_3_302_wp-52.pdf).

<sup>19</sup> See footnote 14.

are simply too discouraged to participate in labour markets and therefore stay at home. In addition, social norms hinder young women from participating in labour markets. All this intensifies the pressure on family breadwinners.

- Low wages are often synonymous with poor working conditions, lack of social protection and an absence of benefits such as sick leave and paid holidays. This lack of decent working conditions impedes the development process.

Only if the region manages to turn growth into decent employment creation will there be enough solid ground for further development.

## Central and Eastern Europe (non-EU) and CIS

Despite solid economic growth rates recently, labour markets in Central and Eastern Europe (non-EU) and the Commonwealth of Independent States<sup>24</sup> continue to be characterized by the high unemployment that accompanied transition from the Communist system. The unemployment rate for the whole region decreased from 9.7 per cent ten years ago to 9.3 per cent in 2006, slightly down from the previous year. The Former Yugoslav Republic of Macedonia reported the highest rate, with 37.3 per cent in 2005. Many of the jobless are young first-time job seekers who, even when they successfully enter the labour market, face rapid labour turnover and much short-term employment. The youth unemployment rate stood at 18.6 per cent in 2006. In the majority of countries, there is greater youth unemployment among women than men.<sup>25</sup>

It is not surprising that the region's continuously high unemployment rates trigger big emigration flows. Many workers who lost their jobs as a result of restructuring and many young workers who never managed to find work have migrated westwards in search of opportunities. Especially in South-Eastern European countries, such as Bulgaria, the level of migration is of increasing concern because of the exodus of well-skilled nationals. This is perceived as reducing the capacity for long-term economic development. Even more worrying is clandestine migration, including trafficking, which often reflects the poor labour market situation.<sup>26</sup>

Labour force participation in this region has been declining ever since the transformation process started. In most Central and Eastern European and CIS countries, economic activity rates have decreased both for men and women, with the decline often larger for men. In addition, the employment-to-population ratio dropped from 54.8 per cent in 1996 to 53.0 per cent in 2006.

One positive regional trend is the substantial reduction in working poverty, which stood at 10.5 per cent in 2006 on the US\$2 a day level compared with 33 per cent ten years earlier. This indicates that the reconstruction process has led to the creation of new jobs that were at least of high enough quality to allow those finding employment to lift themselves and their families out of poverty.

In 2006, the GDP growth rate of 6.3 per cent in Central and Eastern Europe and CIS was again higher than the 3 per cent recorded by the Developed Economies and the European Union. Both Romania and Bulgaria have seen encouraging economic trends. In the course of preparation for EU membership in 2007, the two economies have become more productive and stable. The CIS countries experienced a much greater and longer economic decline after the collapse of the Soviet regime than those in Central and Eastern Europe. However, since 1999 the road to recovery has been strong in the entire region, with economic growth rising from 2.4 in 1999 to last year's level of 6.3 per cent.<sup>27</sup>

The main tasks for Central Eastern Europe (non-EU) and CIS countries are to reverse high unemployment and low employment rates so that there is better use of the potential offered by the working age population. This will only be possible if macroeconomic policies are launched that boost investment *and* job creation and if labour market and social policies contribute to the inclusion, especially of young people, and to poverty reduction.

## Developed Economies and the European Union

Labour market indicators for the region of the Developed Economies and the European Union confirm the positive trend of the last few years. Both the number of unemployed and the unemployment rate declined, dropping to 30.1 million and a rate of 6.2 per cent in 2006 from 32.9 million and a rate of 6.8 per cent in 2005. At the

<sup>24</sup> Given that this Global Employment Trends *Brief* analyses the period until 2006 Bulgaria and Romania were kept in this region despite the fact that since January 2007 they are new EU member states.

<sup>25</sup> ILO, *Global Employment Trends for Youth*, 2006.

<sup>26</sup> ILO, *Report for the 7th European Regional Meeting, a Report of the Director-General on Cooperation in a changing environment*, Volume II, Budapest, 2005,

[http://www.ilo.org/public/english/standards/relm/rgmeet/7term/dgreppv1\\_1.pdf](http://www.ilo.org/public/english/standards/relm/rgmeet/7term/dgreppv1_1.pdf).

<sup>27</sup> See footnote 2.

same time employment increased by over 5 million and the employment-to-population ratio increased to 56.7 per cent from 56.4 per cent.

Nonetheless, variations at the country level were considerable. Unemployment remains above 7.5 per cent in some countries: Italy, Czech Republic, Finland, Estonia, Germany, France, Greece, Israel, Latvia, Spain, Lithuania, Slovakia, and Poland. And in some nations specific groups of people have profited less from better trends. Young people, for example, still have significantly more difficulty in finding their first job. Youth unemployment rates are on average more than double that of adults. In addition, the long-term unemployed and those with lower skill levels find it harder to get work. Finally, most economies in the region have yet to attain equality between men and women in labour markets.

On the other hand, a significant positive trend involves the sharp drop in unemployment rates in the new EU Member States over the last two years (with the exception of Hungary). This reflects a number of developments, including: considerable GDP growth rates as a result of an acceleration of trade between old and new Member States as well as the increase of investment from old EU Member States and non-EU countries making use of lower production costs; the structural changes that have continued since the breakdown of the Soviet regime may finally be starting to pay off; labour market reforms; and migration to old EU Member States, which reduces pressure on home labour markets. This could bring problems in the longer run, however, given that loss of labour can have a negative impact on the long-term growth path.<sup>28</sup>

Overall two thirds of the working age population in the region are active in labour markets, either working or looking for work. The labour force participation rates decreased slightly over the last ten years. This indicates that there is a significant potential to integrate more people into labour markets by making these more inclusive. This is especially true for women, young people and those who become discouraged after years of unemployment.

Regarding economic performance, most economies in the region have enjoyed a prolonged

period of non-inflationary growth despite rising oil and commodity prices. Underlying these favourable trends, persistent wage moderation provided for both price stability and strongly rising profits. This smooth performance has been somewhat disturbed more recently. In the United States, there are signs of inflationary pressures and labour market tensions, while investment in housing has fallen sharply after a long boom in residential construction. However, in the region as a whole there are still few signs of general overheating. Rather than a major slowdown, the world economy may be facing a rebalancing across regions, with growth slowing in the United States and Japan and gathering speed in Europe.

Even though the short-term outlook is fairly good, the region faces some labour market problems in the near future. Given the ageing of the population there is a strong need to get more people into paid employment if governments are to secure living standards and maintain welfare systems. This can be done by moving away from policies that discourage people from working and companies from hiring and by doing more to raise workers' skills. In addition, rapid technological advances and globalization make it all the more important for workers in the region to be ready and able to adjust quickly to change and stiffer competition. Young workers are still 2.4 times more likely to be unemployed than adults. This is a waste of potential that societies cannot afford in the long run. There is an urgent need to further focus on this group to ensure that they start their work life on the right track. Finally, long-term unemployment and high female unemployment combined with lower female labour force participation rates have to be tackled. Governments should increase the chances for people to find a decent job by providing effective re-employment services, counselling, training and financial incentives. On the other hand, benefit recipients must take steps to seek work and improve their employability.

## Summary

The analysis in this brief shows that despite differences among and within regions, there are a number of common threads. Young people have more difficulties in labour markets than adults; women do not get the same opportunities as men; the lack of decent work remains widespread; and

<sup>28</sup> Shortages of skilled labour are already and increasingly reported in the new EU countries. These concern mainly technically skilled workers, both blue and white collar. This is one reason why there is growing migration of non-EU workers and workers from poorer new EU member countries to the richer new EU countries.

the potential a population has to offer is not always fully utilized because of inadequate human capital development or a mismatch between the supply and demand sides of labour markets. There is currently a widespread conviction that decent work is the only sustainable way to reduce poverty, which is why the target of “full, productive and decent employment”

will be a new target within the Millennium Development Goals in 2007. Therefore, it is time for governments as well as the international community to ensure that the favourable economic conditions in most parts of the world are translated into decent job growth.

## Appendix

**Table 1: Unemployment in the world, 1996, 2001, 2003-2006\* (millions)**

| Year   | 1996  | 2001  | 2003  | 2004  | 2005  | 2006* |
|--------|-------|-------|-------|-------|-------|-------|
| Total  | 161.4 | 185.2 | 188.9 | 192.7 | 194.7 | 195.2 |
| Male   | 94.7  | 108.3 | 110.2 | 112.5 | 113.2 | 113.4 |
| Female | 66.7  | 76.9  | 78.7  | 80.2  | 81.5  | 81.8  |

Source: ILO, Global Employment Trends Model, 2006; see also Technical Note in ILO, *Global Employment Trends* (Geneva, 2005) and for further technical information on the world and regional estimation processes, see <http://www.ilo.org/public/english/employment/strat/wrest.htm>. Differences from earlier estimates are due to revisions of the IMF estimates of GDP growth used in the model as well as revisions in the labour market information used. The latter is taken from ILO, *Key Indicators of the Labour Market*, 4<sup>th</sup> Edition, Geneva (2005). \*2006 are preliminary estimates.

**Table 2: Labour force participation rates, 1996, 2001, 2003-2006\***

| Year  | 1996 | 2001 | 2003 | 2004 | 2005 | 2006* |
|-------|------|------|------|------|------|-------|
| Total | 66.7 | 66.1 | 65.8 | 65.7 | 65.6 | 65.5  |
| Youth | 58.2 | 55.7 | 54.7 | 54.5 | 54.3 | 54.2  |
| Adult | 69.7 | 69.6 | 69.5 | 69.5 | 69.4 | 69.3  |

Source: ILO, Global Employment Trends Model, 2006; see also note to table 1. \*2006 are preliminary estimates.



Table 3: Labour market indicators

| Region                                      | Change in unemployment rate (percentage point) | Unemployment rate (%) |      |       | GDP growth rate (%) |       |                   | Employment-to-population ratio (%) |       | Annual labour force growth rate (%) | Annual GDP growth rate (%) |
|---|--|-----------------------|------|-------|---------------------|-------|-------------------|------------------------------------|-------|-------------------------------------|----------------------------|
|   | 2001-2006*                                     | 1996                  | 2005 | 2006* | 2005                | 2006* | 2007 <sup>p</sup> | 1996                               | 2006* | 1996-2006*                          | 1996-2006*                 |
| World                                       | -0.2   | 6.1                   | 6.4  | 6.3   | 4.9                 | 5.2   | 4.9               | 62.6                               | 61.4  | 1.6                                 | 4.1                        |
| Developed Economies and European Union      | -0.4   | 7.8                   | 6.8  | 6.2   | 2.5                 | 3.0   | 2.6               | 55.9                               | 56.7  | 0.7                                 | 2.6                        |
| Central and Eastern Europe (non-EU) and CIS | -0.5   | 9.7                   | 9.4  | 9.3   | 6.4                 | 6.3   | 6.1               | 54.8                               | 53.0  | 0.3                                 | 4.3                        |
| East Asia                                   | -0.3   | 3.7                   | 3.5  | 3.6   | 9.2                 | 9.2   | 9.1               | 75.1                               | 71.6  | 0.9                                 | 8.2                        |
| South-East Asia and the Pacific             | 0.7  | 3.7                   | 6.6  | 6.6   | 5.8                 | 5.4   | 5.7               | 67.5                               | 66.1  | 2.2                                 | 4.1                        |
| South Asia                                  | 0.2  | 4.4                   | 5.2  | 5.2   | 8.2                 | 7.9   | 7.2               | 58.4                               | 56.5  | 2.1                                 | 6.1                        |
| Latin America and the Caribbean             | -0.5   | 7.9                   | 8.1  | 8.0   | 4.3                 | 4.7   | 4.2               | 58.5                               | 60.3  | 2.4                                 | 3.0                        |
| Middle East and North Africa                | -1.1   | 13.0                  | 12.3 | 12.2  | 5.5                 | 6.1   | 5.5               | 44.9                               | 47.3  | 3.5                                 | 4.6                        |
| Sub-Saharan Africa                          | -0.4   | 9.2                   | 9.7  | 9.8   | 5.6                 | 4.8   | 5.9               | 68.8                               | 67.0  | 2.5                                 | 4.0                        |

Source: ILO, Global Employment Trends Model, 2006; IMF, World Economic Outlook, September 2006; see also note to table 1. \*2006 are preliminary estimates; p = projections.

Table 4: Working poor indicators

| Year  | 1996      | 2001      | 2006*     | 1996                          | 2001                          | 2006*                         |
|---|-----------|-----------|-----------|-------------------------------|-------------------------------|-------------------------------|
|   | (million) | (million) | (million) | share in total employment (%) | share in total employment (%) | share in total employment (%) |
| <b>US\$1 a day working poor</b>             |           |           |           |                               |                               |                               |
| World                                       | 594.6     | 578.6     | 507.0     | 24.0                          | 21.7                          | 17.6                          |
| Central and Eastern Europe (non-EU) and CIS | 12.4      | 10.3      | 3.5       | 7.5                           | 6.2                           | 2.1                           |
| East Asia                                   | 145.0     | 147.0     | 95.0      | 20.3                          | 19.6                          | 12.1                          |
| South-East Asia and the Pacific             | 37.4      | 30.9      | 29.6      | 17.0                          | 12.7                          | 11.1                          |
| South Asia                                  | 250.8     | 222.3     | 196.9     | 53.8                          | 43.2                          | 34.4                          |
| Latin America and the Caribbean             | 22.9      | 27.4      | 27.2      | 12.1                          | 12.7                          | 11.3                          |
| Middle East and North Africa                | 2.6       | 3.4       | 3.5       | 3.0                           | 3.3                           | 2.8                           |
| Sub-Saharan Africa                          | 123.5     | 137.3     | 151.3     | 57.3                          | 56.9                          | 55.4                          |
| <b>US\$2 a day working poor</b>             |           |           |           |                               |                               |                               |
| World                                       | 1'354.7   | 1'394.1   | 1'367.8   | 54.8                          | 52.2                          | 47.4                          |
| Central and Eastern Europe (non-EU) and CIS | 54.5      | 51.4      | 18.0      | 33.0                          | 31.0                          | 10.5                          |
| East Asia                                   | 442.9     | 412.6     | 347.2     | 61.9                          | 55.0                          | 44.2                          |
| South-East Asia and the Pacific             | 142.3     | 148.4     | 151.6     | 64.7                          | 61.2                          | 56.9                          |
| South Asia                                  | 425.0     | 458.8     | 498.2     | 91.1                          | 89.1                          | 87.2                          |
| Latin America and the Caribbean             | 67.3      | 72.4      | 74.5      | 35.4                          | 33.6                          | 30.9                          |
| Middle East and North Africa                | 35.8      | 40.5      | 42.8      | 41.3                          | 39.5                          | 34.7                          |
| Sub-Saharan Africa                          | 186.3     | 209.5     | 235.5     | 86.5                          | 86.8                          | 86.3                          |

Source: ILO Trends Working Poverty Model. For more information on estimation methodology, see S. Kapsos, "Estimating growth requirements for reducing working poverty: Can the world halve working poverty by 2015?" Employment Strategy Paper, No. 14 (Geneva, ILO, 2004); available on website: <http://www.ilo.org/public/english/employment/strat/download/esp14.pdf> Differences from earlier estimates are due to revisions of the IMF estimates of GDP growth used in the model as well as revisions in the labour market data used. \*2006 are preliminary estimates.

Table 5: Sectoral shares in employment

| Agriculture                                 | Employment in sector as share of total employment |      |      |       | Female employment as share of total employment in sector |
|---|---|------|------|-------|--|
|   | 1996  | 2004 | 2005 | 2006* | 2006*  |
| <b>Year</b>                                 |   |      |      |       |  |
| World                                       | 43.1  | 40.5 | 39.7 | 38.7  | 41.6   |
| Developed Economies and European Union      | 5.2   | 3.5  | 3.3  | 3.2   | 35.1   |
| Central and Eastern Europe (non-EU) and CIS | 26.2  | 23.2 | 22.7 | 22.0  | 44.1   |
| East Asia                                   | 54.0  | 51.5 | 50.3 | 48.3  | 47.8   |
| South East Asia and the Pacific             | 51.0  | 48.1 | 48.1 | 47.0  | 42.3   |
| South Asia                                  | 59.3  | 54.1 | 52.8 | 51.7  | 36.3   |
| Latin America and the Caribbean             | 23.2  | 19.3 | 19.3 | 18.8  | 21.0   |
| Middle East and North Africa                | 29.7  | 30.0 | 30.5 | 29.7  | 32.3   |
| Sub-Saharan Africa                          | 68.1  | 65.2 | 63.4 | 63.0  | 43.7   |
| <b>Industry</b>                             |   |      |      |       |  |
| World                                       | 21.4  | 20.6 | 20.8 | 21.3  | 32.1   |
| Developed Economies and European Union      | 28.5  | 24.9 | 24.3 | 24.2  | 23.0   |
| Central and Eastern Europe (non-EU) and CIS | 27.9  | 27.3 | 27.5 | 27.7  | 31.9   |
| East Asia                                   | 25.2  | 24.0 | 24.6 | 25.8  | 42.3   |
| South East Asia and the Pacific             | 16.4  | 17.3 | 17.3 | 17.8  | 36.4   |
| South Asia                                  | 15.4  | 17.7 | 18.2 | 18.8  | 27.4   |
| Latin America and the Caribbean             | 20.3  | 20.0 | 19.6 | 19.8  | 28.9   |
| Middle East and North Africa                | 21.7  | 22.4 | 22.5 | 22.9  | 12.6   |
| Sub-Saharan Africa                          | 9.0   | 8.6  | 8.7  | 8.8   | 26.7   |
| <b>Services</b>                             |   |      |      |       |  |
| World                                       | 35.5  | 38.9 | 39.5 | 40.0  | 42.2   |
| Developed Economies and European Union      | 66.4  | 71.6 | 72.4 | 72.7  | 52.3   |
| Central and Eastern Europe (non-EU) and CIS | 45.8  | 49.5 | 49.8 | 50.3  | 52.5   |
| East Asia                                   | 20.7  | 24.5 | 25.1 | 25.8  | 40.0   |
| South East Asia and the Pacific             | 32.7  | 34.6 | 34.6 | 35.2  | 44.6   |
| South Asia                                  | 25.3  | 28.2 | 28.9 | 29.5  | 17.6   |
| Latin America and the Caribbean             | 56.5  | 60.6 | 61.1 | 61.4  | 49.2   |
| Middle East and North Africa                | 48.6  | 47.6 | 47.0 | 47.4  | 25.5   |
| Sub-Saharan Africa                          | 22.9  | 26.2 | 27.9 | 28.2  | 46.1   |

Source: ILO, Global Employment Trends Model, 2006; see note to table 1. \*2006 are preliminary estimates.